

THE FUSION OF MBB WITH VFW FINALLY BROUGHT TO COMPLETION

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This document consists of two newspaper type articles describing the final, long awaited unification of the two German Air and Space Companies, MBB and VFW. Government participation in this "fusion" arrangement and the advantages expected to accrue are discussed.		14. Sponsoring Agency Code	
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THE "FUSION" OF MBB WITH VFW FINALLY COMES ABOUT

Integration of the capacities of the two firms is to take place in stages /Imposing organization with a broad program.

GM Munich 17 December. The Messerschmitt--Boelkow--Blohm GmbH (MBB) of Ottobrunn, near Munich, and the VFW-Administration Company, Bremen, have finally signed the long awaited written contract describing the unification of the two Air and Space Companies. On December 23, the oversight committee of MBB, that is, the oversight council and the business committee, are to meet to pass the necessary resolutions. As was expected, the agreement provides for the take-over of all the business elements of the central corporation of VFW, Ltd by MBB.

The integration of the capacities of the MBB and VFW is to be completed in stages. At first, VFW will be continued under the previous parent corporations. The two VFW parent corporations, Krupp and Bremen, will administer the 10 per cent interest in MBB which falls to them from this agreement in a close holding. For the purpose of their participation, the stock fund of MBB will be increased by 28 up to 278 million DM.

The contract also overcomes the last remaining doubt that the fusion--or more accurately, the purchase of VFW by MBB--would actually come to the point of notary sealing. Thus, what has occurred is practically the final act of a courtship which extends over years. Over the course of that courtship, it sometimes seemed that the fusion was in danger; regional economic interests and the complicated property relationships repeatedly were the occasion for disagreements and disputes before the federal government finally got out the shotgun and practically forced the marriage.

Thus, the German aerospace industry consists now practically of only two concerns, namely MBB and Dornier. The size relation-

ships now are altered to the favor of MBB. Dornier had revenues of 867 million DM, while MBB had revenues of just 2.7 billion DM. VFW came almost to one billion. In approximate terms, the two firms together have revenues of about 4 billion DM, which is about one billion DM more than Dornier. The number of employees of MBB will be increased by about 11,000 to about a total of 38,000 workers.

The goal for the integration of the two firms is the formation of an organization which comprehends the most important activities of the companies in six operating groups. In the previous form, VFW had five chief work fields which now are added to two further fields of MBB. In the marine field, the firm is involved with systems projects. The program of the special technology branch reaches from conveyors and cranes to simulation technology and special machines. In space technology, the northern firm will enrich MBB by the Spacelab project in which MBB did not previously participate. After the delivery of the prototypes, which is to occur in the near future, the planned manufacture of two versions of the space laboratory should last for years. Furthermore, VFW contributes its participation in the Ariane rocket.

In both of the aircraft major programs, MBB now is the only representative of German industry, which comes to a nominal 42.5% in Tornado, and 47.5% in Airbus. In both these capital programs, the branch companies Panavia and Airbus Industries were owned partially (one third) by VFW. In the united firms, there are a total of 7,000 men working now on Tornado and about 10,000 on Airbus. The German Airbus Ltd now becomes a wholly owned MBB subsidiary, unless there does turn out to be participation by Dornier. VFW also contributes its share of the Fokker 27, a subsidiary dealing with the manufacture of light aircraft, as well as a list of calibration and service tasks.

Above all, the two large projects of Tornado and Airbus ensure MBB a secure base of business for a long period of time. The

combined operation is presently so fully employed that the question of economic optimization of the capacity of the firms by means of concentration within the individual plants, or by substantial displacement of production, hardly seems likely to be raised for the immediate future. The only moves planned seem to be the transfer of servicing work on the Starfighter and the Transall from Bremen to Manching, and from Hamburg to Bremen, respectively.

The so-called work-place concept only resulted in moves coming from partial reorganization of administrative functions in various branches. Even that was done with difficulty, although the improvement of the employment situation in the last few years largely removed the question of reorganization of production capacity from the agenda. Even so, the internal amalgamation of the firms will take time, if only because VFW was essentially a centralized company, while MBB was a decided decentralized company.

Without a doubt, MBB is strengthened by the take-over of VFW in terms of market share. This is less true for the domestic market where the federal government has itself reduced the number of workers in the aerospace capacity from three to two and thus has reduced competition. Thus, more contracts will not be forthcoming, especially in a time where budgetary considerations will be more conducive to cancellations, reductions or delays in certain projects. One only has to think on the financial difficulties of Tornado. However, there is little doubt concerning the continuation of the most important programs. And with its strengthened and broadened position, MBB is in a better position to equalize risk in case of cuts here and there than it was before.

In aerospace, competition really has a significant role chiefly in the international field. By its fusion with VFW, MBB now draws almost even with the French firm Aerospatiale which previously was the undisputed number two in Europe (depending on the standard used for comparison). More important is the fact that

MBB strengthened its position in the field of European branch companies for the various fields of air and space and that it is the only one of the national companies which has its hand in all of the five central five areas: military combat aircraft, civil air transports, military missiles, helicopters and space-flight. That means that the firm really has its foot in the door with its eye on some significant future projects.

Because of its ownership in Airbus Industries and Panavia, MBB holds 50% of the European Euromissile Company (missiles), and has a 21% interest in the recently founded branch industry Euro-satellit (AEG has the same size interest as do two French firms, while the Belgians have a 4%). Thus, MBB is involved in the marketing of communications satellites. In the field of helicopters as well, where there has not yet been a European branch company, MBB has certain things to offer. Comparing these five fields, the French Aerospatiale firm is not involved in the construction of military combat aircraft, for example (Dassault for this); and British Aerospace, the largest European aerospace firm (excluding engine manufacturers) is not involved in helicopters. In the case of the Italians, the involvement in comparable programs is even less developed.

A piece of post-war history

For MBR, fusion is nothing new. The firm itself has arisen from a host of predecessor firms and has long had first-hand experience of how the merger of different organization structures can cause difficulties. It also knows how long it can take, for psychological reasons, until the merged parts actually form a new whole. In the list of ancestors of MBB, there are names out of the history of aviation, such as Junkers, Heinkel and Udet.

The starting point for the relatively young history of the firm was the partnership of the legendary aircraft manufacturer, Professor Willy Messerschmitt with the newcomer Ludwig Boelkow,

who had earlier been one of Messerschmidt's employees. The Boelkow Firm, which Boelkow had formed, merged with the Messerschmidt Aviation Works. One year later, the Blohm Hamburg Aircraft Works became the third in the partnership. This firm brought with it a dowry of a high loss, arising from its difficult economic situation. This loss long remained an albatross around the neck of the new firm.

This experience must have come to mind from time to time, as the leadership of MBB was involved in the negotiations over the take-over of VFW. This time, the losses, especially that involved with the politically killed jet transport VFW 614, were eliminated with the help of the federal government with the decisive action of MBB. So retrospectively, it may seem as a piece of good fortune that the first attempt, after Bloehm, to push VFW into the concentration process, was rapidly abandoned. That took place still under the management of the important, but still controversial, entrepreneur, Ludwig Boel'kow, without whose leadership the present-day firm MBB would hardly be imaginable. This era is gone forever. GM.

GO AHEAD FOR THE FUSION OF MBB AND VFW

Unification after three year discussions/Bonn releases financing for the Airbus.

Bonn/Munich (SZ) after almost three years of negotiations, the great fusion in the German aerospace industry is finally accomplished. The two firms, Messerschmitt-Boelkow-Blohm Ltd (MBB) of Munich, and VFW-Administration Company, Ltd of Bremen, released Wednesday a written agreement concerning their merger. Concerning this agreement, the Federal Cabinet released the financing for the continuation of the Airbus program which had been blocked due to the protracted negotiations over the merger. This decision came on the recommendation of the Coordinator for Air and Space, State Secretary Martin Gruener.

The unification of the firms is to be finalized by the MBB oversight board on December 23, 1980. The plan is that MBB takes over all the operating units of VFW. The former VFW partners, the Fried. Krupp Ltd, (illegible), and the Hanseatic Industry Partners Ltd, Bremen, will continue their participation in the aerospace industry by ownership of 10% of MBB held closely. For this purpose, MBB capital will be increased to 278 million DM. The final purchase price will be determined by arbitration. It is anticipated that the former VFW partners will receive an additional financial compensation.

SUBSIDIES AND SECURITIES

Bonn's decision affects both the federal subsidies for the present production program of the Type A 300 and the production of the smaller Airbus Type A 310. The cabinet decided that the Federal Economics Minister, in agreement with the Federal Finance

Minister, will be empowered to provide additional funds for the fiscal years up to 1985, at a level of up to 91 million DM, for the financing of the German development component on the Airbus A 310, as well as further funds for Airbus improvements until 1983. The subsidies will have to be paid back, in accordance with previous agreements. In concrete terms, this means that the production of the small Airbus version A 310 has been approved, and that new manufacturing plans for the large Airbus A 300 have been financially secured. A further security for the Airbus production is furnished by the fact that the federal government plans to increase its stock limits for the production credits for the Airbus Industry up to 850 million DM, bringing them to a level of 2.65 billion DM.

The release of the fiscal funding and the expansion of the stock limits was carried out with the condition that the Airbus undertaking be set forth in a comprehensive plan until May, 1981, for the total program A 300 and A 310. As a result, all possibilities for the improvements of solutions and cost reductions are to be worked out. The federal government has required in this that the program be reexamined on the basis of this document. Until now, 447 Airbuses have been sold (including the orders and options). Of these, 154 are orders for the new Airbus version A 310.

A SOLID FOUNDATION

The decisions on development cost subsidies and stock securities were not only facilitated by the favorable order situation, according to the government's own statements. The decisions were facilitated most of all because the Airbus program now has a more substantial industrial foundation with the merger of the MBB and VFW firms. The essential factors in this are the middle and long term perspectives on the increase in competitiveness. Contributing to this, in the opinion of the federal government are 1) that VFW and MBB can work together in international projects; 2) investment and production plans can be developed jointly for the greatest

possible economy in the future; 3) by shifting tasks and personnel within the organization, it will be possible to achieve a better equalization of work load and fluctuations in utilization can be equalized.

COMPLETION OF THE MERGER TO TAKE PLACE IN STAGES

According to a release of information by the firms, the integration of the capacities of MBB and VFW is to be carried out in stages. VFW will be managed for the time being by the previous firms. The goal is an organization with all its activities comprehended in six branch areas. One group of three areas will be centered in the north and the chief resources of the other group of three fields will be settled in the south. The operating branch for military combat aircraft, apparatus, rotary wing and traffic will have its headquarters in Ottobrunn. The operating branches for space flight, marine technology, will have their headquarters in Bremen, and the operating area for transport aircraft will be headquartered in Hamburg.

MBB and VFW presently employ 38,500 (26,500 at MBB, 12,000 at VFW) with total revenues in 1980 of about 4.3 billion DM (3.2 MBB; 1.1 VFW). hen/wl.